

**ELK RAPIDS DISTRICT LIBRARY**  
**ELK RAPIDS, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Elk Rapids District library	County Antrim
Fiscal Year End February 28, 2006	Opinion Date June 14, 2006	Date Audit Report Submitted to State July 14, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

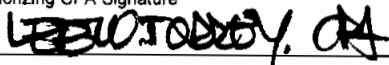
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number (231) 946-2300	
Street Address 928 S. Garfield Ave., Suite 3		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Lee W. Torrey, C.P.A.	License Number A259355

# ELK RAPIDS DISTRICT LIBRARY

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**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

**INDEPENDENT AUDITOR'S REPORT**

June 14, 2006

Board of Directors  
Elk Rapids District Library  
Elk Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of Elk Rapids District Library as of and for the year ended February 28, 2006, which collectively comprise Elk Rapids District Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elk Rapids District Library management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to satisfy ourselves as to the carrying value of the Library's resource collection due to inadequate records.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the value of the collection, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Elk Rapids District Library as of February 28, 2006 and the respective changes in financial position, and respective budgetary comparison for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT *Continued*

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2006 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

*Kraemer, Vanderburg & Tabor, P.C.*

Certified Public Accountants

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
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TRAVERSE CITY  
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Of Counsel:  
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 14, 2006

Board of Directors  
Elk Rapids District Library  
Elk Rapids, Michigan 49686

We have audited the financial statements of Elk Rapids District Library, as of and for the year ended February 28, 2006, and have issued our report thereon dated June 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Elk Rapids District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

The Library was in noncompliance with its operating budget for the general fund.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Elk Rapids District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Elk Rapids District Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions noted are as follows:

Board of Directors  
Elk Rapids Library  
July 6, 2005  
Page (2)

- 1) The software system used to account for the cost of the Library's resource collection does not accurately account for those costs.
- 2) The Library currently lacks adequate segregation of duties within the accounting function.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 1 to be a material weakness.

This report is intended for the information of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited.

*Karlson, VandeLuz & Torrey, A.C.*

Certified Public Accountants

**ELK RAPIDS DISTRICT LIBRARY**  
**LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FISCAL YEAR MARCH 2005-FEBRUARY 2006**

The MD & A is intended to serve as an overview analysis  
of the financial condition and operating results of the library.

Please direct your questions regarding this report to:

Anna LaRue, Library Director  
Elk Rapids District Library  
300 Isle of Pines, P. O. Box 337  
Elk Rapids, Michigan 49629  
(231) 264-9979



**ELK RAPIDS DISTRICT LIBRARY**  
**MANAGEMENT DISCUSSION AND ANALYSIS FY 2005-6**

**Relationship of Financial Statements**

The basic financial statements contained herein include information that presents two different views of the Library using the modified-accrual and full accrual methods.

The individual fund balance sheet/statement of net assets and liabilities and the individual fund statement of revenue, expenditures and changes in fund balance include information about the Library's General Fund under the modified-accrual method.

The modified-accrual method focuses on current financial resources. The full accrual method focuses on long-term economic resources and presents a statement of not only how services were financed in the short term, but also what remains for future spending. Under the former system, capital outlay is an expense. Under the latter system, capital outlay is capitalized as an asset, resulting in a statement of more net profit.

**The Library as a Whole**

The Library's net revenue increased by \$10,089 over the previous fiscal year compared to an increase of \$15,913 last year. The Library's primary source of revenue is provided from the millage of .045 mills assessed from the Library District. The millage provided approximately 80% of the year's revenue compared to 78% last year. Other major sources of revenue included penal fines, interest, general donations and State Aid which provided about 15% of the yearly revenue; all other sources provided approximately 5%. The Library remained eligible for State Aid this fiscal year due to our millage revenue increasing our income enough to meet State Aid requirements.

Salaries and benefits account for approximately 45% of the budget for a total of \$105,302. This was an increase of 9% over the previous year in part due to a full year contribution to the director's 403b retirement plan.

The largest non-salary related expenditure is for building improvements which included re-siding the building and two new furnaces. These amount to approximately 27% of the budget. Expenditures for new library materials amounted to approximately 13% of the budget compared to 14% last year.

### **The Library Funds**

The Library uses a General Fund to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library.

The Library also has a separate Building Improvement Fund which is designated for special projects.

### **The Library's Budgetary Highlights**

Over the course of the year, the Library Board of Trustees amended the General Fund's budget to address needs that occurred during the year. For example, Category 7097 for Internet service increased from \$0 to \$800 due to the creation of the library's online catalog service at a cost of \$100 per month starting May 2005.

The surplus income over expenditures in the previous year enabled the library to complete the previously mentioned and necessary building maintenance projects.

### **Capital Asset Investments**

At the end of the fiscal year, the Library had \$536,414 invested in furniture, equipment, books, and audio-visual materials. The Library has a long-term lease with the Village of Elk Rapids for use of the library building, with annual lease payments of one dollar.

### **Next Year's Anticipated Budget Factors**

It is anticipated that the Library Board will be able to lower the millage rate due to increasing property values while still meeting its goals.

**ELK RAPIDS DISTRICT LIBRARY  
STATEMENT OF NET ASSETS  
FEBRUARY 28, 2006**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 154,203
Prepaid expenses	1,177
Total Current Assets	<u>\$ 155,380</u>

**Noncurrent Assets**

Capital assets	\$ 933,685
Less: Accumulated depreciation and amortization	(397,271)
Total Noncurrent Assets	<u>\$ 536,414</u>

<b>Total Assets</b>	<u><u>\$ 691,794</u></u>
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**LIABILITIES**

**Current Liabilities**

Accounts payable	\$ 1,349
Accrued payroll taxes	2,188
Accrued salaries and wages	736
Accrued pension	220
Accrued compensated absences	2,688
Total Current Liabilities	<u>\$ 7,181</u>

**NET ASSETS**

Invested in capital assets	\$ 536,414
Restricted for:	
Building improvements	3,879
Unrestricted	<u>144,320</u>
Total Net Assets	<u><u>\$ 684,613</u></u>

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

		Program Revenues		Governmental
				Activities
	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expense) Revenue and Changes in Net Assets
<b><u>Functions/Programs</u></b>				
Governmental activities:				
Library services	\$ 183,430	\$ 6,404	\$ 9,353	\$ (167,673)
<b>General Revenues:</b>				
Intergovernmental:				
Property taxes levied for general purposes				\$ 174,086
State aid				4,287
Penal fines				15,186
Interest Income				6,392
Miscellaneous				1,673
Total General Revenues				\$ 201,624
<b>Change in Net Assets</b>				\$ 33,951
Net assets - beginning of year				650,662
<b>Net Assets - End of Year</b>				\$ 684,613

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**FEBRUARY 28, 2006**

	<b>General Fund</b>	<b>Building Improvement Fund</b>	<b>Totals Governmental Funds</b>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 146,132	\$ 8,071	\$ 154,203
Due from Building Improvement Fund	4,192	-	4,192
Prepaid expenses	1,177	-	1,177
Total Assets	<u>\$ 151,501</u>	<u>\$ 8,071</u>	<u>\$ 159,572</u>
<b><u>Liabilities and Equity</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,349	\$ -	\$ 1,349
Due to General Fund	-	4,192	4,192
Employment taxes payable	2,188	-	2,188
Accrued salaries and wages	736	-	736
Accrued pension	220	-	220
Accrued compensated absences	2,688	-	2,688
Total Liabilities	<u>\$ 7,181</u>	<u>\$ 4,192</u>	<u>\$ 11,373</u>
<b>Fund Balance</b>			
Reserved for public improvements	\$ -	\$ 3,879	\$ 3,879
Reserved for Board purposes	5,000	-	5,000
Unreserved	139,320	-	139,320
Total fund equity	<u>\$ 144,320</u>	<u>\$ 3,879</u>	<u>\$ 148,199</u>
Total Liabilities and Fund Equity	<u>\$ 151,501</u>	<u>\$ 8,071</u>	<u>\$ 159,572</u>

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY  
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

Fund Balance - Total governmental funds	\$ 148,199
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the General Fund:

Governmental capital assets	\$ 933,685	
Less: accumulated depreciation	<u>(397,271)</u>	<u>536,414</u>

Net Assets - Governmental Activities	<u><u>\$ 684,613</u></u>
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The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**  
**(Page 1 of 2)**

<b><u>Revenues</u></b>	<b><u>General Fund</u></b>	<b><u>Building Improvement Fund</u></b>	<b><u>Total Governmental Funds</u></b>
Intergovernmental			
- Elk Rapids Township	\$ 76,150	\$ -	\$ 76,150
- Milton Township	97,936	-	97,936
- State Aid	4,287	-	4,287
- Penal Fines	15,186	-	15,186
Contract Fees - Torch Lake Township	3,500	-	3,500
Book Fines	1,715	-	1,715
Replacement card	141	-	141
Copier Fees	430	-	430
Interest - bank account	6,288	104	6,392
ILL Fees	182	-	182
Donations	4,838	456	5,294
Note cards	5	-	5
Non-resident Fees	430	-	430
Miscellaneous Income	1,673	-	1,673
Total Revenues	<u>\$ 212,761</u>	<u>\$ 560</u>	<u>\$ 213,321</u>
<b><u>Expenditures</u></b>			
Supplies			
Library	\$ 1,216	\$ -	\$ 1,216
Office	1,619	-	1,619
Cleaning	739	-	739
Books and Audio Tapes	19,205	-	19,205
Rental Books and Tapes	5,436	-	5,436
Periodicals	4,314	-	4,314
Insurance:			-
General	3,002	-	3,002
Workers Comp	284	-	284
Utilities:			-
Water	470	-	470
Natural Gas	2,882	-	2,882
Telephone	1,596	-	1,596
Internet	800	-	800

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**  
(Page 2 Of 2)

<b><u>Expenditures (continued)</u></b>	<b><u>General Fund</u></b>	<b><u>Building Improvements Fund</u></b>	<b><u>Total Governmental Funds</u></b>
Accounting and Legal	4,856	-	4,856
Contracts/MMLL	3,820	-	3,820
Technical Support	3,875	-	3,875
Postage	1,105	-	1,105
Printing:			-
Publicity	131	-	131
Other	125	-	125
Programs:			-
Childrens Reading	799	-	799
Volunteers	146	-	146
Board of Trustees	618	-	618
Adults	100	-	100
Mileage	-	-	-
Maintenance:			-
Building Facilities	5,966	-	5,966
Capital Outlay:			-
Building	62,007	-	62,007
Furniture	126	-	126
Other	2,707	-	2,707
Equipment Lease Expense	960	-	960
Education	110	-	110
Payroll:			-
FICA	5,548	-	5,548
Medicare	1,297	-	1,297
Gross	90,204	-	90,204
Pension	1,813	-	1,813
Health Insurance	6,440	-	6,440
Miscellaneous	1,480	-	1,480
Building Improvements:			-
Improvements	-	-	-
Bank Charges	-	34	34
Total Expenditures	<u>\$ 235,796</u>	<u>\$ 34</u>	<u>\$ 235,830</u>
<b><u>Excess (Deficiency) Revenue Over Expenditures</u></b>	<u>\$ (23,035)</u>	<u>\$ 526</u>	<u>\$ (22,509)</u>
Fund Balance - Beginning of Period	<u>167,355</u>	<u>3,353</u>	<u>170,708</u>
<b><u>Fund Balance - End of Period</u></b>	<u><u>\$ 144,320</u></u>	<u><u>\$ 3,879</u></u>	<u><u>\$ 148,199</u></u>

The accompanying notes are an integral part of these financial statements.



**ELK RAPIDS DISTRICT LIBRARY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

Net change in fund balances - total governmental funds	\$	(22,509)
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Amounts reported for governmental activities in the  
Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.  
However, in the Statement of Activities, the cost of those assets  
is depreciated over their estimated useful lives.

Expenditures for resource collection	\$	20,354	
Expenditures for furniture, fixtures and equipment		2,334	
Expenditures for leasehold improvements		62,506	
Less: current year depreciation and amortization		<u>(35,358)</u>	49,836

Current year adjustment to the long-term liability portion of accrued compensated absences is not reported in the governmental funds		2,564
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In-kind donations for capital assets are not recorded in the governmental funds if they are held for use		<u>4,060</u>
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Change in net assets of governmental activities	\$	<u><u>33,951</u></u>
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The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

The Elk Rapids District Library (the Library) was organized during 1939. The Library serves primarily the residents of the Village of Elk Rapids, Elk Rapids Township, Milton Township and Torch Lake Township, Michigan. The Library operates under an appointed Board of Directors consisting of eight members.

The criteria established for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service and special financing relationships. Accordingly, the financial statements of the Library contain all Library funds that are controlled by or dependent upon the Library's executive branch.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

**Government-Wide Financial Statements**

The Library's Government Wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The balance sheet includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts; invested in capital assets, restricted for building improvements, and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Amounts reported as program revenue include charges to patrons for the use of various Library assets and replacement, service, and damage fees.

**Fund Financial Statements**

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

**ELK RAPIDS DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

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**Note 1 - Summary of Significant Accounting Policies (continued)**

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following governmental funds:

**General Fund** – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes and other intergovernmental revenues.

**Building Improvements Fund** – This fund is used to account for major additions to the current physical plant and other major acquisitions. Revenues are derived from general donations specifically earmarked for building improvements.

**Budgets and Budget Accounting**

The Library adopts a budget for its governmental type fund as required by Public Act 621 of the State of Michigan. The Library follows these procedures in establishing the budget as reflected in the financial statements:

1. In November or December, the Library Board prepares a preliminary budget for the ensuing fiscal year.
2. During February, the budget is legally enacted through passage of a resolution. Amendments to the budget can be made during the fiscal year, if necessary, by a simple majority vote of the Library Board.
3. The budget is adopted on a basis consistent with the modified accrual method of accounting.

The Library adopted its budget for the year ended February 28, 2006 at its February 10, 2005 meeting. The last amendment to the budget was made on December 8, 2005. A statement of revenues and expenditures compared to budget for the year is included on pages 23 and 24.

**ELK RAPIDS DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

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**Note 1 - Summary of Significant Accounting Policies (continued)**

All funds have positive fund balances at February 28, 2006.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. During the year ended February 28, 2006, the Library incurred expenditures in excess of the amount budgeted as follows:

	<u>Budget</u>		<u>Actual</u>		<u>Over Expended</u>
For the General Fund:					
Supplies - Office	\$ 1,400		\$ 1,619		\$ 219
Capital outlay – building	\$ -		\$ 62,007		\$ 62,007
Capital outlay - other	\$ 520		\$ 850		\$ 330

**Encumbrance System**

The Library does not use an encumbrance system.

**Cash and Cash Equivalents**

For the purposes of the balance sheet classification, the Library considers all money market accounts and certificates of deposits with maturities of three months or less when purchased to be cash equivalents.

**Cash and Deposits**

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Library or by its agent in the Library's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, \$ 54,395 of the Library's cash deposits are classified as Category 3, and the remainder is classified as Category 1.

**ELK RAPIDS DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

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**Note 1 - Summary of Significant Accounting Policies (continued)**

**Capital Assets** - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Leasehold improvements, furniture and equipment, and library books, periodicals, and videos are depreciated using the straight-line method over the following lives:

Leasehold improvements	20 - 40 years
Furniture and equipment	5 - 30 years
Library books and audiovisual materials	6 years

**Compensated Absences**

The Library Director may accrue up to 160 hours of annual leave time. These hours can be carried into the following year. These types of compensated absences are typically used for vacation purposes. Sick time is earned at a rate of 5 days per year and may be accumulated. Unused sick time is not compensated to employees at termination or retirement.

**Property Taxes**

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls on March 1. The total tax levy was based on a millage rate of .45 and total State Taxable Valuation of approximately \$ 400,986,430.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

**Note 2 - Legal or Contractual Provisions for Deposits and Investments**

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

**ELK RAPIDS DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

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**Note 2 - Legal or Contractual Provisions for Deposits and Investments (continued)**

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the Act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation repurchase agreements
- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Certain other restrictions also apply including a requirement for the Board of Directors to formally adopt an Investment Policy which includes specified matters.

**ELK RAPIDS DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2006**

**Note 3 - Capital Assets**

Capital asset activity of the Library was as follows:

	Balance March 1, 2005	Additions	Adjustments and Deletions	Balance February 28, 2006
<b>Capital Assets:</b>				
Leasehold improvements	\$ 435,568	\$ 62,506	\$ -	\$ 498,074
Furniture and equipment	136,277	2,334	(650)	137,961
Library collection	274,446	24,414	(1,210)	297,650
Total	<u>\$ 846,291</u>	<u>\$ 89,254</u>	<u>\$ (1,860)</u>	<u>\$ 933,685</u>
<b>Accumulated depreciation and amortization</b>				
Leasehold improvements	\$ 80,696	\$ 11,750	\$ -	\$ 92,446
Furniture and Equipment	58,610	7,223	(650)	65,183
Library collection	224,467	16,385	(1,210)	239,642
Totals	<u>\$ 363,773</u>	<u>\$ 35,358</u>	<u>\$ (1,860)</u>	<u>\$ 397,271</u>

Depreciation and amortization for the year ended February 28, 2006 amounted to \$ 35,358. The Library has only one program and therefore there is no allocation necessary for the Statement of Activities.

**Note 4 - Commitments**

The Library has entered into a lease with the Village of Elk Rapids on July 20, 1998 for the use of premises located at 300 Noble, Elk Rapids, Michigan (commonly known as the "Island House"). The lease calls for annual lease payments of one dollar (\$ 1.00) and other good and valuable consideration. The term of the lease is for forty (40) years and does not provide for automatic renewal or extension of the lease; but the parties may, on a voluntary basis, agree to extend or renew the lease upon such terms and provisions as shall be negotiated in the future.

The Library has entered into a non-cancelable operating lease for the use of a Xerox copier/printer/scanner. The lease began on August 12, 2002 and requires sixty (60) monthly payments of \$ 59.16. The lease expense for the fiscal year ended February 28, 2006 was \$ 960. Remaining lease obligations are as follows:

2006-07	\$ 710
2007-08	396
	<u>\$ 1,106</u>

**ELK RAPIDS DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

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**Note 5 - Risk Management**

The Library carries insurance coverage for property damage, liability, wrongful acts and crime claims. Also, the Library has purchased from a commercial carrier worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 6 - Fund Balance Designations**

The Library has established a reserve for future unemployment costs in that they are a reimbursing employer with the Michigan Unemployment Security Commission. The District Library only pays after someone has filed a claim for unemployment compensation. No additional accrual was made during the fiscal year as the current reserve of \$ 5,000 appears to be adequate to handle potential claims.

**Note 7 – Deferred Compensation Plan**

During the 2004/2005 fiscal year, the Board instituted a 403(b) retirement plan for the Library director. The plan is administered by Capital Bank and Trust Company who has designated Prime Vest Financial Services as its agent. The plan allows the director to defer a portion of her salary until future years. The Library has elected to contribute 5% of eligible compensation to this plan. Total Library contributions were \$ 1,813 for the year ended February 28, 2006.

All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries.

**Note 8 – Long-Term Debt**

Summary of Long-Term Debt Transaction:

	Beginning Balance 3/1/05	Reductions	Ending Balance 2/28/06
Compensated absences	\$ 2,564	\$ (2,564)	\$ -

Due to a clarification in the Library's sick time compensation policy, the long-term debt associated with accrued sick time has been extinguished.



**ELK RAPIDS DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**  
(Page 1 of 2)

<b>Revenues</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance (Unfavorable) Favorable</b>
Intergovernmental				
- Elk Rapids Township	\$ 77,000	\$ 76,150	\$ 76,150	\$ -
- Milton Township	98,000	97,936	97,936	-
- State Aid	-	4,287	4,287	-
- Penal Fines	15,000	15,186	15,186	-
Contract Fees - Torch Lake Township	3,000	3,500	3,500	-
Book Fines	600	1,650	1,715	65
Replacement card	100	135	141	6
Copier Fees	200	386	430	44
Interest - bank account	1,000	6,300	6,288	(12)
ILL Fees	100	180	182	2
Donations	4,000	5,260	4,838	(422)
Note cards	50	5	5	-
Non-resident Fees	300	425	430	5
Transfer from Fund Equity	37,050	28,077	-	(28,077)
Miscellaneous Income	1,100	1,556	1,673	117
<b>Total Revenues</b>	<b>\$ 237,500</b>	<b>\$ 241,033</b>	<b>\$ 212,761</b>	<b>\$ (28,272)</b>

**Expenditures**

Supplies				
Library	\$ 4,000	\$ 1,300	\$ 1,216	\$ 84
Office	2,000	1,400	1,619	(219)
Cleaning	1,000	850	739	111
Other	100	-	-	-
Books and Audio Tapes	25,000	20,000	19,205	795
Rental Books and Tapes	8,200	5,700	5,436	264
Periodicals	3,700	4,320	4,314	6
Insurance:				-
General	3,500	3,032	3,002	30
Workers Comp	300	292	284	8
Utilities:				-
Water	600	530	470	60
Natural Gas	5,000	3,600	2,882	718
Telephone	2,000	1,800	1,596	204
Internet Service	2,100	800	800	-

**ELK RAPIDS DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**  
**(Page 2 Of 2)**

<b><u>Expenditures (continued)</u></b>	<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance (Unfavorable) Favorable</u></b>
Accounting and Legal	3,000	4,900	4,856	44
Contracts/MMLL	3,500	3,821	3,820	1
Technical Support	7,000	3,875	3,875	-
Postage	1,200	1,200	1,105	95
Printing:				-
Publicity	300	160	131	29
Other	300	125	125	-
Programs:				-
Childrens Reading	1,500	800	799	1
Volunteers	400	150	146	4
Board of Trustees	600	618	618	-
Adult	1,000	100	100	-
Mileage	500	-	-	-
Maintenance:				-
Building Facilities	36,000	68,500	5,966	62,534
Capital Outlay:				-
Building	-	-	62,007	(62,007)
Technology	2,000	2,100	1,857	243
Furniture	2,500	130	126	4
Other	4,000	520	850	(330)
Equipment Lease Expense	1,200	1,200	960	240
Education	1,000	110	110	-
Payroll:				-
FICA	6,000	5,700	5,548	152
Medicare	1,500	1,400	1,297	103
Gross	95,000	91,400	90,204	1,196
Pension	2,000	2,100	1,813	287
Health Insurance	7,500	6,500	6,440	60
Miscellaneous	2,000	2,000	1,480	520
Contingency	-	-	-	-
Total Expenditures	<u>\$ 237,500</u>	<u>\$ 241,033</u>	<u>\$ 235,796</u>	<u>\$ 5,237</u>
<b><u>Excess (Deficiency) Revenue Over Expenditures</u></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (23,035)</b>	<b><u>\$ (33,509)</u></b>
Fund Balance - Beginning of Period	<u>167,355</u>	<u>167,355</u>	<u>167,355</u>	
<b><u>Fund Balance - End of Period</u></b>	<b><u>\$ 167,355</u></b>	<b><u>\$ 167,355</u></b>	<b><u>\$ 144,320</u></b>	

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

June 14, 2006

Board of Trustees  
Elk Rapids District Library  
Elk Rapids, Michigan

In planning and performing our audit of the financial statements of Elk Rapids District Library for the year ended February 28, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Elk Rapids District Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

We found that the cost records for the Library's collections are not accurately reflecting the activity within the collection. We found significant differences between the closing balances for 2004/05 and the opening balances for 2005/06 with inadequate explanation for the differences. We recommend that the system with which the collection is tracked be refined in order to properly account for the cost of the collection. This condition should be monitored regularly until it has been resolved.

We also noted the following condition that is not believed to be a material weakness.

During our audit, it became apparent that there is a lack of segregation of duties within the Library's accounting function. This was particularly evident during our review of the duties that are performed by Library management. We recommend that cash reconciliations be prepared by an individual who has no access to the Library's accounting system.

**Other Matters For Consideration:**

Uniform Chart of Accounts

The Board should adopt the Uniform Chart of Accounts for Counties and Local Units of Government in Michigan issued by the Michigan Department of Treasury so that the Library will be in compliance with Act 2 of 1968 and Act 71 of 1919.

Written Credit Card Usage Policy

The Board should adopt a written credit card usage policy so that the Library will be in compliance with the requirements of P.A. 266 of 1995 for the State of Michigan.

Capitalization Policy

The Board should adopt a policy which determines when a purchase should be capitalized for depreciation purposes. This policy should specify a dollar amount criteria to be used.

This report is intended solely for the information and use of the Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

If we can be of assistance in implementing these recommendations, we would be happy to do so.

KROGER, VANDEBEEK & TADDOY, P.C.

Certified Public Accountants